

Annual Financial Report

Southeast Service Cooperative

Rochester, Minnesota

For the Year Ended

June 30, 2018

THIS PAGE IS LEFT
BLANK INTENTIONALLY

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Table of Contents
For the Year Ended June 30, 2018

	<u>Page No.</u>
Introductory Section	
Board of Directors	7
Financial Section	
Independent Auditor's Report	11
Management's Discussion and Analysis	15
Basic Financial Statements	
Proprietary Funds	
Statement of Net Position	22
Statement of Revenues, Expenses and Changes in Net Position	25
Statement of Cash Flows	26
Fiduciary Fund	
Statement of Fiduciary Net Position	28
Notes to the Financial Statements	29
Required Supplementary Information	
Schedule of Employer's Share of Teachers Retirement Association Net Pension Liability	56
Schedule of Employer's Teachers Retirement Association Contributions	56
Notes to the Required Supplementary Information - Teacher Retirement Association	56
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability	57
Schedule of Employer's Public Employees Retirement Association Contributions	57
Notes to the Required Supplementary Information - Public Employees Retirement Association	57
Schedule of Changes in the Cooperative's Total OPEB Liability and Related Ratios	58
Combining and Individual Fund Schedules and Table	
Combining Schedule of Revenues, Expenses and Changes in Net Position	
Member Services Cost Centers	61
Risk Management Cost Centers	64
Fiduciary Fund	
Statement of Changes in Assets and Liabilities	65
Uniform Financial Accounting and Reporting Standards Compliance Table	66
Single Audit and Other Required Reports	
Independent Auditor's Report on	
Minnesota Legal Compliance	71
Independent Auditor's Report on Internal	
Control Over Financial Reporting and on	
Compliance and Other Matters Based on an	
Audit of Financial Statements Performed in	
Accordance with <i>Government Auditing Standards</i>	72
Independent Auditor's Report on Compliance	
For Each Major Federal Program and Report on	
Internal Control over Compliance Required	
by the <i>Uniform Guidance</i>	74
Schedule of Expenditure of Federal Awards	76
Notes to Schedule of Expenditures of Federal Awards	77
Schedule of Findings and Questioned Costs	78

THIS PAGE IS LEFT
BLANK INTENTIONALLY

INTRODUCTORY SECTION

SOUTHEAST SERVICE COOPERATIVE
INDEPENDENT SCHOOL DISTRICT NO. 921
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2018

THIS PAGE IS LEFT
BLANK INTENTIONALLY

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Board of Directors
For the Year Ended June 30, 2018

Name	Position	Term Expires
Theresa Arrick-Kruger	Chairperson	12/31/2020
Mary Blair-Hoeft	Vice-chairperson	12/31/2021
Michael Christensen	Treasurer	12/31/2018
Bree Maki	Clerk	12/31/2018
Carol Cravath	Member	12/31/2021
Jason Marquardt	Member	12/31/2021
Lynn Gorski	Member	12/31/2019
Karla Bauer	Member	12/31/2019
Don Leathers	Member	12/31/2020
Rob Mathias	Member	12/31/2020
Steve Sallee	Executive Director	

THIS PAGE IS LEFT
BLANK INTENTIONALLY

FINANCIAL SECTION

SOUTHEAST SERVICE COOPERATIVE
INDEPENDENT SCHOOL DISTRICT NO. 921
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2018

THIS PAGE IS LEFT
BLANK INTENTIONALLY

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of each major enterprise fund of the Southeast Service Cooperative, Rochester, Minnesota, (the Cooperative) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major enterprise fund of the Cooperative as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

THIS PAGE IS LEFT
BLANK INTENTIONALLY

Other Matters

Revenue and Claims Development Information

As disclosed in Note 1, information necessary to present the ten-year revenue and claims development information for its Risk Management Pool fund is not readily available and therefore the Cooperative has not presented this information. Accounting principles generally accepted in the United States of America has determined this information is necessary to supplement, although not required to be part of, the basic financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15, the Schedules of Employer's Shares of the Net Pension Liability, the Schedules of Employer's Contributions and the Schedule of Changes in the Cooperative's Net OPEB Liability and Related Ratios starting on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

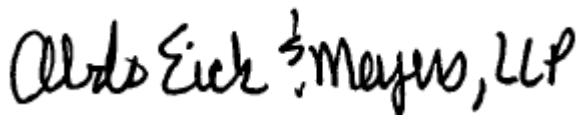
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's basic financial statements. The introductory section and combining and individual fund schedules and table are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements.

The combining and individual fund schedules and table and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2018, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
December 18, 2018

THIS PAGE IS LEFT
BLANK INTENTIONALLY

Management's Discussion and Analysis

This section of Southeast Service Cooperative's (the Cooperative) annual financial report presents our discussion and analysis of the Cooperative's financial performance during the fiscal year that ended on June 30, 2018. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

The Cooperative is a membership organization and is recognized in terms of a legal entity as a public entity, independent school district. The Cooperative does not have any levy authority, does not have any tax base, does not receive any regular government funding; and doesn't provide ongoing, regular instructional programming for K-12 students. This is an important consideration in comparing and contrasting the Cooperative's financial statements with other public entities and/or Cooperatives. It is also an important consideration in that revenue has to be generated to provide services and programs for members.

Overview of the Financial Statements

The financial section of the annual report consists of four parts - Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two enterprise funds: Member Services and Risk Management Pools. Since the Cooperative does not have any significant financial activity because of government funding, there is only one set of statements that is prepared on a *government-wide* basis.

Government-wide Statements. The *government-wide statements* report information about the Cooperative using accounting methods similar to those used by private-sector companies. The balance sheet includes all the Cooperative's assets and deferred outflows of resources and liabilities and deferred inflows of resources. All the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position regardless of when cash is received or paid. The two government-wide statements report the Cooperative's *net position* and how they have changed. Net position - the difference between the Cooperative's assets and deferred outflows of resources and liabilities and deferred inflows of resources - are one way to measure the Cooperative's financial health or *position*. Over time, increases or decreases in the Cooperative's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

Southeast Service Cooperative's Summary of Net Position

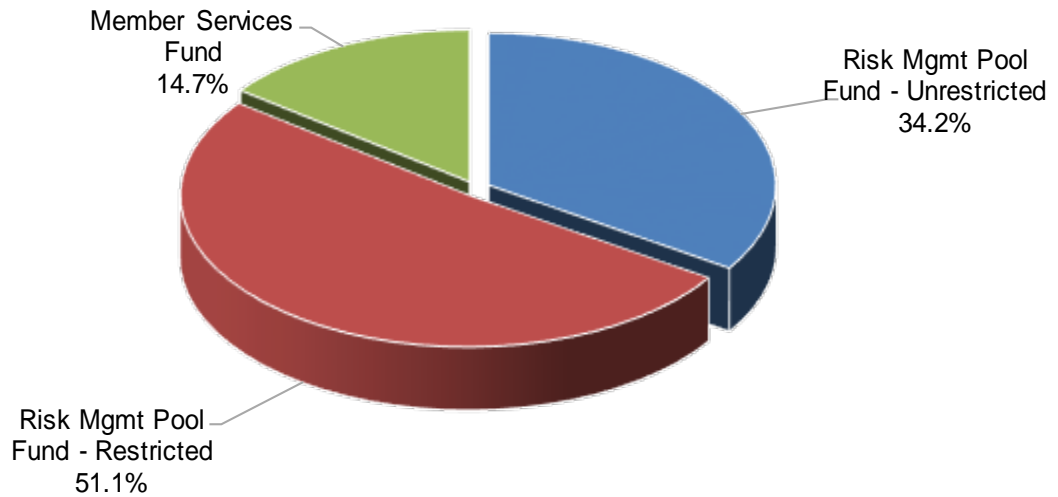
	Business-type Activities		Increase (Decrease)	
	2018	Restated 2017	Amount	Percent
Current and Other Assets	\$ 20,471,591	\$ 22,138,747	\$ (1,667,156)	(7.5) %
Capital Assets	1,921,616	2,092,585	(170,969)	(8.2)
Total Assets	<u>22,393,207</u>	<u>24,231,332</u>	<u>(1,838,125)</u>	(7.6)
Deferred Outflows of Resources	<u>1,839,048</u>	<u>2,869,703</u>	<u>(1,030,655)</u>	(35.9)
Long-term Liabilities Outstanding	3,480,793	4,677,765	(1,196,972)	(25.6)
Other Liabilities	6,074,152	7,591,110	(1,516,958)	(20.0)
Total Liabilities	<u>9,554,945</u>	<u>12,268,875</u>	<u>(2,713,930)</u>	(22.1)
Deferred Inflows of Resources	<u>745,837</u>	<u>132,893</u>	<u>612,944</u>	461.2
Net Position				
Investment in capital assets	1,921,616	2,092,585	(170,969)	(8.2)
Restricted for rate stabilization	7,123,992	5,158,417	1,965,575	38.1
Unrestricted	<u>4,885,865</u>	<u>7,448,265</u>	<u>(2,562,400)</u>	(34.4)
Total Net Position	<u>\$ 13,931,473</u>	<u>\$ 14,699,267</u>	<u>\$ (767,794)</u>	(5.2)

Southeast Service Cooperative's Changes in Net Position

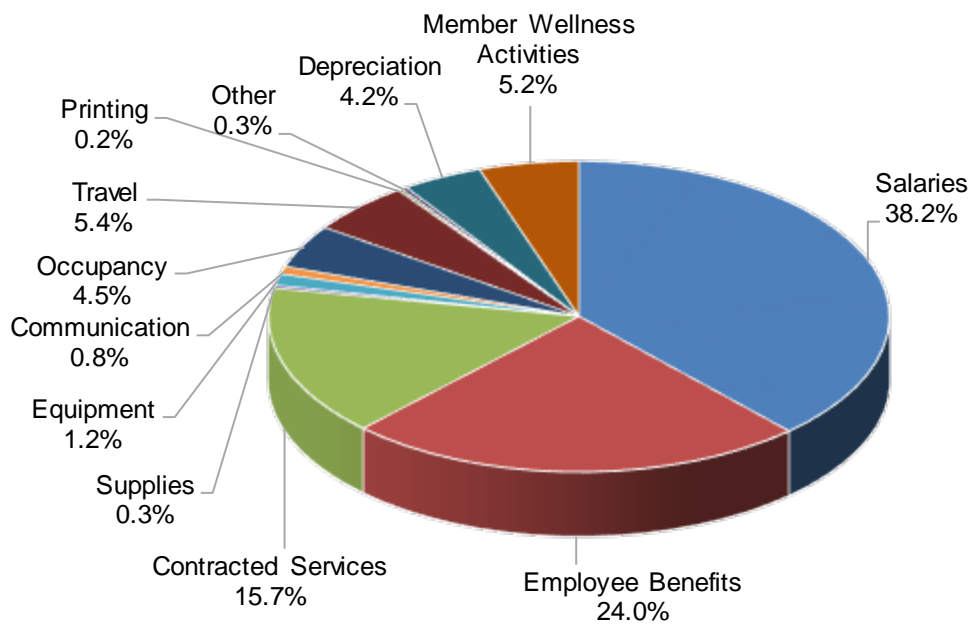
	Business-type Activities		Increase (Decrease)	
	2018	2017	Amount	Percent
Revenues				
Program revenues				
Fees from patrons	\$ 651,757	\$ 505,087	\$ 146,670	29.0 %
Grants	1,303,366	1,258,548	44,818	3.6
Sales and other conversion of assets	98,747	175,426	(76,679)	(43.7)
Insurance premiums	63,688,249	63,192,020	496,229	0.8
Administrative fees	2,169,328	1,947,606	221,722	11.4
General revenues				
Interest income	133,988	20,704	113,284	547.2
Other miscellaneous revenue	14,183	52,333	(38,150)	(72.9)
Total Revenues	<u>68,059,618</u>	<u>67,151,724</u>	<u>907,894</u>	1.4
Expenses				
Salaries	1,686,364	1,585,571	100,793	6.4
Employee benefits	1,061,682	1,126,170	(64,488)	(5.7)
Contracted services	692,165	1,043,377	(351,212)	(33.7)
Supplies	14,559	28,467	(13,908)	(48.9)
Equipment (not capitalized)	51,220	98,210	(46,990)	(47.8)
Communication	37,459	32,012	5,447	17.0
Occupancy	197,960	286,413	(88,453)	(30.9)
Travel	239,762	227,598	12,164	5.3
Printing	10,570	13,645	(3,075)	(22.5)
Other	13,764	54,649	(40,885)	(74.8)
Administration	(6,451)	-	(6,451)	N/A
Depreciation	186,821	181,650	5,171	2.8
Wellness activities	230,779	388,348	(157,569)	(40.6)
Insurance premiums and administrative fees	11,832,663	14,523,953	(2,691,290)	(18.5)
Insurance claims	51,853,053	48,668,067	3,184,986	6.5
Insurance settlements	528,240	1,597,329	(1,069,089)	(66.9)
Network access fees	198,889	184,915	13,974	7.6
Loss (gain) on disposal of capital assets	(2,087)	3,178	(5,265)	(165.7)
Total Expenses	<u>68,827,412</u>	<u>70,043,552</u>	<u>(1,216,140)</u>	(1.7)
Change in Net Position	(767,794)	(2,891,828)	2,124,034	(73.4)
Net Position - July 1 as Restated (Note 8)	<u>14,699,267</u>	<u>17,591,095</u>	<u>(2,891,828)</u>	(16.4)
Net Position - June 30	<u>\$ 13,931,473</u>	<u>\$ 14,699,267</u>	<u>\$ (767,794)</u>	(5.2)

Condensed Financial Information

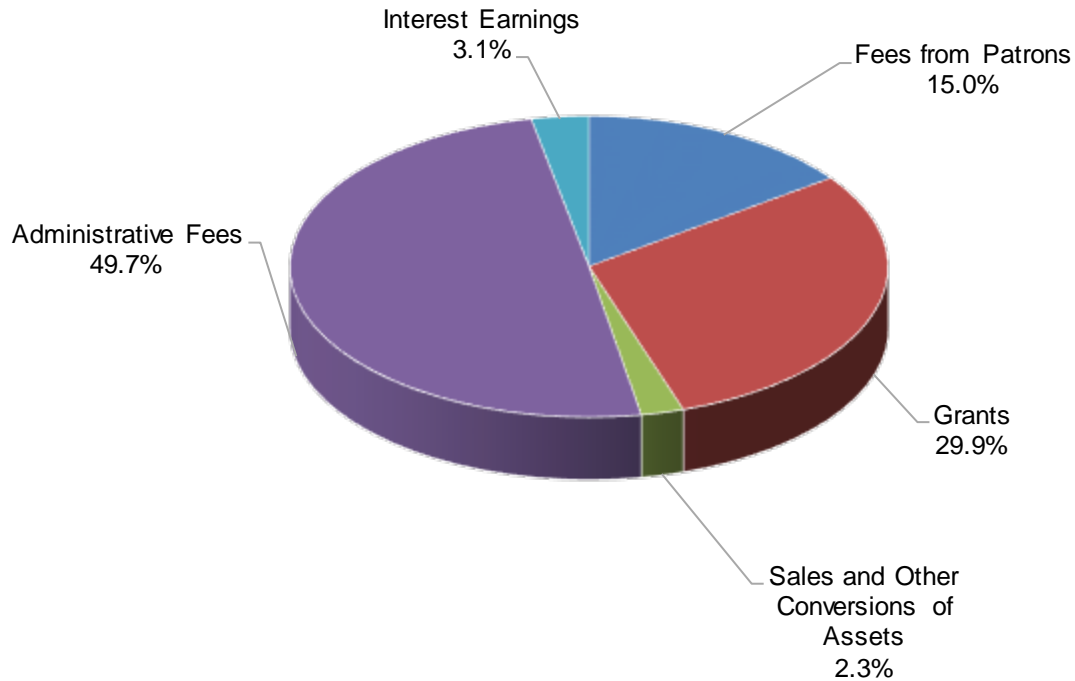
Net Position June 30, 2018



Total Expenses (Less Health Premiums) July 1, 2017 to June 30, 2018



Total Revenue (Less Health Premiums) July 1, 2017 to June 30, 2018



Analysis of Financial Position of the Cooperative as a Whole

The Cooperative's combined net position was \$13,931,473 on June 30, 2018. This was a decrease of 5.2 percent from the prior year. This is primarily due to higher than expected insurance settlement claims in both the Local Government Pool and the School Pool of the Risk Management Pool. Another contributing factor is that the Cooperative recognized long-term other postemployment benefits payable.

The Cooperative continues to bear a 10 percent risk liability for member's claims in the insurance pools. The Cooperative must use insurance reserves to pay for any negative settlements. The Cooperative's insurance reserve is now \$11,878,098 which is a decrease from 2017 of \$932,525. This exceeds a possible 10 percent claims loss. The maximum loss based on this year's claims would be \$5,185,305 (\$51,853,053 X 10 percent). The majority of reserves that are in excess of a 10 percent claim loss risk (\$5,185,305) are specifically identified for each pool at the time of settlements and are intended to reduce insurance premiums paid by members in future years. The Board of Directors reviews the status of reserves and strategizes in using them on a one-time basis to set future premiums in both pools.

Total assets decreased by 7.6 percent. This was primarily due to the decrease in both the Local Government Pool and the School Pool of the Risk Management Pool fund. The School Pool Rate Stabilization Reserve (RSR) funds were used to provide participating School Pool groups with funding for wellness initiatives and for premium rate relief.

Total long-term liabilities decreased by \$1,196,972 or 25.6 percent. This is due to a substantial decrease in the Cooperative's share of the Net Pension Liability (NPL) for both the Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA). The Cooperative's share of NPL for TRA decreased from \$3,410,891 to \$2,435,341 or 28.6 percent. The Cooperative's share of NPL for PERA decreased from \$1,177,328 to \$944,822 or 19.7 percent. These decreases are primarily due to the financial condition of PERA and TRA since the Cooperative's share of the NPL have changed very little.

Southeast Service Cooperative's Capital Assets (Net of Depreciation)

	Business-type Activities		
	2018	2017	Increase (Decrease)
Land	\$ 535,500	\$ 535,500	\$ -
Land Improvements	497,705	497,705	-
Buildings	1,903,642	1,903,642	-
Equipment	718,722	715,203	3,519
Less Accumulated Depreciation	(1,733,953)	(1,559,465)	(174,488)
Total	<u>\$ 1,921,616</u>	<u>\$ 2,092,585</u>	<u>\$ (170,969)</u>

The Cooperative combined capital assets were \$1,921,616 on June 30, 2018. This was a decrease of 8.2 percent from the prior year. This decrease was mainly due to the annual depreciation expense recognized by the Cooperative.

Financial Analysis of the Cooperative Funds

The revenue increased in most areas and increased overall by 1.4%. Fees for services increased due to added participation in several program areas. Grant revenue increased due to additional spending on grant-specific activities. Interest income increased due to increase in interest rates and less losses on market value than in the previous year.

Expenses decreased overall 1.7%. This is primarily due to less utilization of consulting services, lowered facility costs, as well as more favorable insurance settlements.

Both Health Insurance pools currently have fully-funded reserves to protect the financial stability of the pools.

Factors Bearing on the Cooperative's Future

The Cooperative will continue to strengthen revenue through fees for service and administrative fees related to services needed by member organizations. The Cooperative continues to rely very heavily on the revenue from health insurance programming. The ever-changing impact of Federal, State and local funding for the Cooperative's membership continues to provide both additional opportunities and additional challenges to the Cooperative's services. The Cooperative is seeking ways to continue to diversify revenue in order be less reliant on health insurance programming funds for future initiatives.

The greatest challenge to the Cooperative's financial position for the future is the 10 percent risk factor that is part of a contractual arrangement with Blue Cross and Blue Shield of Minnesota, Inc. The Cooperative has used a series of processes intended to maintain the financial efficacy of the pools, however, the rising costs and unpredictability of the health insurance market as well as Federal and State legislation will continue to affect future health insurance programming and the finances needed.

Contacting the Cooperative's Financial Management Staff

This financial report is designed to provide our members, customers, and creditors with a general overview of the Cooperative's finances and to demonstrate the Cooperative's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Accounting Department, Southeast Service Cooperative, 210 Woodlake Drive Southeast, Rochester, MN 55904.

BASIC FINANCIAL STATEMENTS
SOUTHEAST SERVICE COOPERATIVE
INDEPENDENT SCHOOL DISTRICT NO. 921
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2018

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-type Activities - Enterprise Funds		
	Member Services	Risk Management Pool	Total
Current Assets			
Cash and temporary investments	\$ 2,194,338	\$ 9,917,897	\$ 12,112,235
Receivables			
Accounts	15,384	-	15,384
Interest	-	44,877	44,877
Due from other districts	27,343	-	27,343
Intergovernmental	329,591	-	329,591
Rate stabilization reserve	-	7,123,992	7,123,992
Prepaid items	5,994	-	5,994
Total Current Assets	<u>2,572,650</u>	<u>17,086,766</u>	<u>19,659,416</u>
Noncurrent Assets			
Land held for resale	-	812,175	812,175
Capital assets			
Land	535,500	-	535,500
Land improvements	497,705	-	497,705
Buildings	1,903,642	-	1,903,642
Equipment	718,722	-	718,722
Less accumulated depreciation	(1,733,953)	-	(1,733,953)
Total capital assets (net of accumulated depreciation)	<u>1,921,616</u>	<u>-</u>	<u>1,921,616</u>
Total Noncurrent Assets	<u>1,921,616</u>	<u>812,175</u>	<u>2,733,791</u>
Total Assets	<u>4,494,266</u>	<u>17,898,941</u>	<u>22,393,207</u>
Deferred Outflows of Resources			
Deferred pension resources	1,804,267	22,013	1,826,280
Deferred other postemployment benefit resources	12,305	463	12,768
Total Deferred Outflows of Resources	<u>1,816,572</u>	<u>22,476</u>	<u>1,839,048</u>
Liabilities			
Current Liabilities			
Accounts and other payables	58,186	2,547	60,733
Health claims payable	-	4,552,718	4,552,718
Due to other districts	150	400	550
Due to other governments	2,310	640	2,950
Health claims payable - IBNR	-	1,411,104	1,411,104
Unearned revenue	1,000	-	1,000
Compensated absences payable - current portion	45,097	-	45,097
Total Current Liabilities	<u>106,743</u>	<u>5,967,409</u>	<u>6,074,152</u>
Noncurrent Liabilities			
Compensated absences payable	36,167	-	36,167
Pension liability	3,320,345	59,818	3,380,163
Other postemployment benefits payable	62,123	2,340	64,463
Total Noncurrent Liabilities	<u>3,418,635</u>	<u>62,158</u>	<u>3,480,793</u>
Total Liabilities	<u>3,525,378</u>	<u>6,029,567</u>	<u>9,554,945</u>

The notes to the financial statements are an integral part of this statement.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Statement of Net Position
Proprietary Funds (Continued)
June 30, 2018

	Business-type Activities - Enterprise Funds		
	Member Services	Risk Management Pool	Total
Deferred Inflows of Resources			
Deferred Pension Resources	\$ 732,085	\$ 13,752	\$ 745,837
Net Position			
Investment in capital assets	1,921,616	-	1,921,616
Restricted for rate stabilization	-	7,123,992	7,123,992
Unrestricted	131,759	4,754,106	4,885,865
Total Net Position	<u>\$ 2,053,375</u>	<u>\$ 11,878,098</u>	<u>\$ 13,931,473</u>
Net Position as Reported Above	\$ 2,053,375	\$ 11,878,098	\$ 13,931,473
Adjustments from net position to UFARS fund balance			
Pension liability	3,320,345	59,818	3,380,163
Other postemployment benefits payable	62,123	2,340	64,463
Deferred inflows of pension resources	732,085	13,752	745,837
Deferred outflows of pension resources	(1,804,267)	(22,013)	(1,826,280)
Deferred outflows of other postemployment benefits	(12,305)	(463)	(12,768)
Total UFARS Fund Balance	<u>\$ 4,351,356</u>	<u>\$ 11,931,532</u>	<u>\$ 16,282,888</u>

The notes to the financial statements are an integral part of this statement.

THIS PAGE IS LEFT
BLANK INTENTIONALLY

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds		
	Member Services	Risk Management Pool	Total
Operating Revenues			
Fees from patrons	\$ 651,757	\$ -	\$ 651,757
Grants			
State	125,181	-	125,181
Federal	1,178,185	-	1,178,185
Sales and other conversion of assets	98,747	-	98,747
Insurance premiums	-	63,688,249	63,688,249
Administrative fees	42,284	2,127,044	2,169,328
Other miscellaneous revenue	14,183	-	14,183
Total Operating Revenues	<u>2,110,337</u>	<u>65,815,293</u>	<u>67,925,630</u>
Operating Expenses			
Salaries	1,627,002	59,362	1,686,364
Employee benefits	1,037,375	24,307	1,061,682
Contracted services	383,223	308,942	692,165
Supplies	14,496	63	14,559
Equipment (not capitalized)	51,220	-	51,220
Communication	36,404	1,055	37,459
Occupancy	191,025	6,935	197,960
Travel	225,213	14,549	239,762
Printing	9,245	1,325	10,570
Other	13,764	-	13,764
Administration	(858,342)	851,891	(6,451)
Depreciation	186,821	-	186,821
Wellness activities	-	230,779	230,779
Insurance premiums and administrative fees	-	11,832,663	11,832,663
Insurance claims	-	51,853,053	51,853,053
Insurance settlements	-	528,240	528,240
Network access fees	-	198,889	198,889
Total Operating Expenses	<u>2,917,446</u>	<u>65,912,053</u>	<u>68,829,499</u>
Operating Income (Loss)	<u>(807,109)</u>	<u>(96,760)</u>	<u>(903,869)</u>
Nonoperating Revenues (Expenses)			
Interest income	1,486	132,502	133,988
Gain on disposal of capital assets	2,087	-	2,087
Total Nonoperating Revenues (Expenses)	<u>3,573</u>	<u>132,502</u>	<u>136,075</u>
Income (Loss) Before Transfers	(803,536)	35,742	(767,794)
Transfers In	968,267	-	968,267
Transfers Out	-	(968,267)	(968,267)
Change in Net Position	164,731	(932,525)	(767,794)
Net Position, July 1 as Restated (Note 8)	<u>1,888,644</u>	<u>12,810,623</u>	<u>14,699,267</u>
Net Position, June 30	<u>\$ 2,053,375</u>	<u>\$ 11,878,098</u>	<u>\$ 13,931,473</u>

The notes to the financial statements are an integral part of this statement.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds		
	Member Services	Risk Management Pool	Total
Cash Flows from Operating Activities			
Cash received from members	\$ 772,880	\$ 65,821,190	\$ 66,594,070
Cash payments to suppliers for goods and services	(176,886)	(14,109,902)	(14,286,788)
Cash payments on insurance claims and settlements	-	(55,071,822)	(55,071,822)
Cash payments to employees for services	(2,235,440)	(83,372)	(2,318,812)
Grant receipts	1,303,366	-	1,303,366
Net Cash Provided (Used) by Operating Activities	(336,080)	(3,443,906)	(3,779,986)
Cash Flows from Noncapital and Related Financing Activities			
Transfers in	968,267	-	968,267
Transfers out	-	(968,267)	(968,267)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	968,267	(968,267)	-
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(21,199)	-	(21,199)
Proceeds from sale of equipment	2,087	-	2,087
Net Cash Provided (Used) by Capital and Related Financing Activities	(19,112)	-	(19,112)
Cash Flows from Investing Activities			
Interest received on investments	1,486	150,300	151,786
Net Increase (Decrease) in Cash and Cash Equivalents	614,561	(4,261,873)	(3,647,312)
Cash and Cash Equivalents, July 1	1,579,777	14,179,770	15,759,547
Cash and Cash Equivalents, June 30	<u>\$ 2,194,338</u>	<u>\$ 9,917,897</u>	<u>\$ 12,112,235</u>

The notes to the financial statements are an integral part of this statement.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Statement of Cash Flows
Proprietary Funds (Continued)
For the Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds		
	Member Services	Risk Management Pool	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (807,109)	\$ (96,760)	\$ (903,869)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation expense	192,168	-	192,168
Prior period restatement (note 8)	(49,776)	(1,875)	(51,651)
(Increase) decrease in assets			
Accounts receivable	14,039	281	14,320
Due from other districts	(22,562)	-	(22,562)
Intergovernmental	(26,568)	5,616	(20,952)
Rate stabilization reserve	-	(1,965,575)	(1,965,575)
Prepaid items	(3,185)	-	(3,185)
(Increase) decrease in deferred outflow of resources			
Deferred pension resources	1,011,036	19,619	1,030,655
Increase (decrease) in liabilities			
Accounts and other payables	(97,845)	(838,847)	(936,692)
Salaries payable	(366)	-	(366)
Health claims payable	-	2,747,150	2,747,150
Due to other districts	(14,624)	(13,645)	(28,269)
Due to other governments	(331)	(9,208)	(9,539)
Health claims payable - IBNR	-	(3,273,215)	(3,273,215)
Unearned revenue	1,000	-	1,000
Compensated absences payable	(18,755)	-	(18,755)
Pension liability	(1,183,180)	(24,876)	(1,208,056)
OPEB Liability	62,123	2,340	64,463
Increase (decrease) in deferred inflow of resources			
Deferred pension resources	607,855	5,089	612,944
Net Cash Provided (Used) by Operating Activities	<u>\$ (336,080)</u>	<u>\$ (3,443,906)</u>	<u>\$ (3,779,986)</u>

The notes to the financial statements are an integral part of this statement.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2018

	<u>Agency</u>
Assets	
Cash and temporary investments	\$ 67,960
Accounts receivable	<u> 3,140</u>
Total Assets	<u><u> \$ 71,100</u></u>
Liabilities	
Accounts payable	\$ 36
Due to other districts	<u> 71,064</u>
Total Liabilities	<u><u> \$ 71,100</u></u>

The notes to the financial statements are an integral part of this statement.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Southeast Service Cooperative (the Cooperative) is a public agency established by an act of the 1976 Legislature of the State of Minnesota. The primary purpose is to provide services, programs, in-service education, and planning to participating school districts within an 11 county region in Southeastern Minnesota. The Cooperative has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Cooperative are such that exclusion would cause the Cooperative's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The Cooperative has no component units that meet the GASB criteria.

The Cooperative is also a participant in, and a sponsor of, a public entity risk pool established as a health insurance purchasing pool for its members. Members may withdraw from the pool at any time, but to rejoin the pool the member must wait two years. Any net investment a withdrawing member has with the pool remains in the pool. The pool is responsible for any remaining "run-out" claims. The agreement for formation of the pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$150,000 for members in the City/County/Other Governmental Agencies (the Government) pool and \$125,000 for members in the School pool. The pool also has an aggregate attachment point set at 110 percent of expected claims. Members are not subject to a supplemental assessment in the event of deficiencies. If the assets of the pool were to be exhausted, members would not be responsible for the pool's liabilities.

The Cooperative has a consulting agreement with Next Generation Benefits, LLC to assist in administering the Risk Management Pool. The pool is administered by an agreement with Blue Cross and Blue Shield of Minnesota (BCBSM, Inc.) from July 1, 2017 to June 30, 2018. The accounting policies of the Cooperative conform to accounting principles generally accepted in the United States of America.

B. Joint Powers Agreement for Group Employee's Benefit and Other Risk Management Services

The Cooperative and its participating members have established a risk management program. The objective is to procure and manage insurance programs at lower costs. Members fund this program by remitting to the Cooperative an actuarially determined premium. A fee is paid to BCBSM, Inc. on a monthly basis for administering the program. The claims portion is remitted to BCBSM, Inc. on a weekly basis. Any remaining amounts are held by the Cooperative to fund any future liabilities (insurance claims). There are 16 School pool and 27 other governmental units (Government) included in the pool.

BCBSM, Inc. and the Cooperative on an annual basis, calculate an estimate of future claims based on claims experience and actuarial studies to determine premiums. At the end of each plan year, a settlement is made with BCBSM, Inc. and the reserve account and the Incurred but Not Reported (IBNR) are funded. BCBSM, Inc. retains the risk for claims above the Cooperative's 110 percent aggregate attachment point, but the Cooperative is responsible for claims from 100 percent to 110 percent. The Cooperative purchases through BCBSM, Inc., stop-loss insurance to pay individual insurance member claims in excess of \$500,000 for members of the Government pool, \$125,000 for members of the School pool. The Cooperative purchases additional stop-loss insurance through the Minnesota HealthCare Consortium for its CCOGA pool as of January 1, 2017. The additional insurance through Minnesota HealthCare Consortium is tiered as follows: \$75,000 for Groups 2-50, \$100,000 for Group 51-99 and \$200,000 for Groups 100+. The premium plan year-end is August 31 for School pool and December 31 for the Government pool, even though premium and claims activity is reported using a June 30 year end. As of June 30, 2018, plan year ending December 31, 2017 for the Government pool has been settled and the plan year ended August 31, 2017 for the School pool has been settled.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

As part of the agreement, BCBSM, Inc. has established a rate stabilization reserve (RSR) to provide cash flow for the insurance program. This reserve was established by BCBSM, Inc. with a contribution equal to one month's estimated charges. Each month, a portion of the premiums are to be deposited into the RSR to maintain this fund. The RSR is used to provide funds when claims exceed premiums and to fund the IBNR Claims account if there are insufficient funds to fund that liability and to receive any over-funding of the IBNR. Negative balances in the RSR represent advances to the Cooperative and are reflected in the financial statements as a liability. The RSR balance is adjusted on an annual basis as part of the year-end settlement as referred to above. The RSR activity and balances reflect the balances as of June 30, 2018 for educational districts and cities, counties, and other local governmental agencies. The RSR balance as of June 30, 2018 for the education districts is based on BCBSM, Inc. estimates. The RSR activity and balances as of June 30, 2018 for cities, counties, and other local governmental agencies is based on Minnesota HealthCare Consortium estimates.

Transfers to Minnesota Healthcare Consortium

In August 2017, the Cooperative agreed, along with six other cooperatives throughout the state of Minnesota, to establish a new statewide public entity risk pool through the merger of the insurance pools held by each cooperative. Starting with fiscal periods beginning in 2018, insurance pools from each cooperative will be merged into a joint powers entity, Minnesota Healthcare Consortium (MHC). MHC, and its elected board of directors, will maintain decision-making the power over the merged pools such as, but not limited to decisions to: purchase and hold stop-loss insurance, permit limited commingling of program funds in a statewide reserve, and enter into statewide contracts with third party vendors. As a result of this agreement the Cooperative's IBNR reserve and RSR funds were transferred to MHC. Ongoing year-end claims, RSR, and stop-loss settlement activity is expected to occur between the Cooperative and MHC with MHC replacing BCBSM within the settlement process. The Cooperative does not anticipate any significant changes to its net assets and financial positions as a direct result of this transition.

C. Basic Financial Statement Presentation

All activities of the Cooperative are accounted for within two enterprise funds. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. Proprietary funds are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting* in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Fiduciary funds are used to account for resources held for the benefit of parties outside of the Cooperative. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Cooperative's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Cooperative receives value without directly giving equal value in return, include grants, entitlement and donations. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Cooperative must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Cooperative on a reimbursement basis.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

E. Description of Funds

The Cooperative reports the following major proprietary funds:

The *Member Services fund* is the Cooperative's primary operating fund. The fund accounts for all financial resources of the Cooperative, except those required to be accounted for in another fund.

The *Risk Management Services fund* is used to account for the various member services and risk management pool activities of the Cooperative and also "termination reserves", recalculated at annual settlement, to pay claims run-out in the event the pool's relationship with BCBSM Inc. ceases.

Additionally the Cooperative reports the following fiduciary fund:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The *SEMNET fund* is custodial in nature and does not present results of operations or have a measurement focus. The fund accounts for assets held by the Cooperative for the Southeast Minnesota Network of which the Cooperative serves as the fiscal host.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing insurance services to members in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Cooperative's enterprise funds are charges to customers for insurance services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Cooperative's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

Deposits and Investments

The Cooperative's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The Cooperative may invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The Cooperative has not adopted a formal investment policy that addresses interest rate and credit risk.

Investments for the Cooperative are reported at fair value. The Minnesota School District Liquid Asset Fund Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

The Cooperative categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Cooperative has the following recurring fair value measurements as of June 30, 2018:

- US Treasury securities of \$4,430,270 are valued using quoted market prices (Level 1 inputs)
- Negotiable certificates of deposit of \$3,911,993 are valued using a matrix pricing model (Level 2 inputs)

Accounts Receivable

Accounts receivable include amounts billed to members for services provided before year end. All trade receivables are shown net of an allowance for uncollectible accounts. It has been determined, as of June 30, 2018, that no allowance for uncollectible accounts is necessary.

Rate Stabilization Reserve

As described in Note 1B, BCBSM, Inc. retains a portion of the premium paid as a rate stabilization reserve. This amount is recalculated annually in conjunction with the annual settlement. Negative balances in the RSR represent advances by BCBSM, Inc. and require repayment by the Plan. For the plan years ended June 30, 2018 and 2017, the rate stabilization reserve held by BCBSM, Inc. was \$7,123,992 and \$5,158,417, respectively.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Assets Held for Resale

These assets represent land owned by the Cooperative with the intent to sell to developers. This land is recorded at the lesser of historical cost or net realizable value.

Capital Assets

Capital assets include property, plant and equipment. Capital assets are defined by the Cooperative as assets with an initial, individual cost of more than \$2,000 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the Cooperative are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	24
Equipment and Vehicles	3 - 15

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Cooperative has two items that qualifies for reporting in this category. Accordingly, the items, deferred pension resources and deferred OPEB resources, are reported only in the statement of net position. The pension resources results from actuarial calculations and current year pension contributions made subsequent to the measurement date. The OPEB resources are current year OPEB contributions made subsequent to the measurement date.

Health Claims Payable

Health claims payable represent amounts payable to BCBSM, Inc. or member groups for annual settlements and are reflected as accounts and other payables in the financial statements.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Health Claims Payable - IBNR (Incurred but Not Reported)

Health claims payable include provisions for claims reported but not settled, future claims adjustment expenses, and claims incurred but not reported (IBNR). The provision for these claims liabilities is determined by an actuarial calculation prepared by BCBSM, Inc. based on claims incurred plus a completion factor estimating the amount, which will ultimately be paid by each claimant. The provision for claims liabilities is estimated based on the Cooperative's experience since the inception of the program, and is based on the June 30, 2018 estimated settlement for both education districts and cities/counties and other local governmental agencies. The Cooperative has reserved investments in excess of these liabilities. Management believes the claims liabilities based on BCBSM, Inc. estimated actuarial calculations as of June 30, 2018 adequately reflect the estimated claims liabilities for the current year ended June 30, 2018.

Information necessary to separate claims reported but not settled, claims adjustment expenses, and claims incurred but not reported is not readily available. Such information includes the actuarial estimates of incurred claims and expenses at the end of the year, claims paid related to prior years' claims, and subsequent adjustments to prior years' estimates for incurred claims and expenses. This information, if available, can be used to present Ten-Year Claims Development Information.

Pensions

Teachers Retirement Association (TRA)

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 3.

Public Employees Retirement Association (PERA)

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has one type of item, which arises only under a full accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, deferred pension resources, is reported only in the government-wide statement of net position and results from actuarial calculations.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits

Under Minnesota statute 471.61, subdivision 2b, public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in a group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees are able to add dependent coverage during open enrollment period or qualifying life event prior to retirement. All premiums are funded on a pay-as-you-go basis. The liability was determined, in accordance with GASB Statement No. 75, at July 1, 2017.

ACA Fees Payable

Under the Affordable Care Act (ACA), health plan sponsors are required to pay a Temporary Reinsurance Fee (TRP) to fund a Transitional Reinsurance Program in place from 2014 to 2016 which is payable to the Department of Health and Human Services (HHS). The filing date for the TRP fee is November 15th, with payment due by January 15th, for each applicable year. TRP fees are based on the number of individuals covered under each group member's plan. The group members participating in the Cooperative's health insurance purchasing pool are responsible for filing and paying these fees to HHS.

To assist in collecting funds to pay for each group's estimated TRP fees, the Cooperative, members, and BCBSM have agreed to include these fees as a portion of the groups' premiums paid to BCBSM. BCBSM collects these fees and transmits them to the Cooperative. The Cooperative holds these fees in escrow until the groups' estimated filing and payment periods, at which time funds will be refunded back to the pool groups.

Vacation Payable

Vacation pay is earned based on position and years of service. Vacation may be accumulated up to a maximum amount equal to 1.5 times the amount the employee is eligible to earn in the current year. Employees are required to take at least five consecutive days of vacation each year. The Member Services fund is typically used to liquidate vacation payable.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Investment in capital assets - Consists of capital assets, net of accumulated depreciation.
- b. Restricted net position - Consist of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "investment in capital assets".

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 2: Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the Cooperative's deposits and investments may not be returned or the Cooperative will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Board of Directors, the Cooperative maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all Cooperative deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any Federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the Cooperative.

At year end, the Cooperative's carrying amount of deposits was \$173,979 and the bank balance was \$245,412 which was covered by federal depository insurance.

The Minnesota School District Liquid Asset Fund (MSDLAF) is a trust organized and existing under the laws of the State and the Minnesota Joint Powers Act, as amended. The trust was established for the purpose of allowing Minnesota school districts to pool their investment funds to obtain a competitive investment yield, while maintaining liquidity and preserving capital. The credit rating for the MSDLAF is AAAM. The Cooperative's investment in the MSDLAF and Broker money markets are equal to the value of pool shares.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 2: Detailed Notes on All Funds (Continued)

As of June 30, 2018, the Cooperative had the following investments that are insured or registered, or securities held by the Cooperative or its agent in the Cooperative's name:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled Investments at Amortized Costs						
Wells Fargo Investments Money Market Minnesota School District	NA	less than 6 months	\$ 3,112,188	\$ -	\$ -	\$ -
Max Class Minnesota School District	N/A	less than 6 months	501,179	-	-	-
Liquid Asset Fund	N/A	less than 6 months	50,486	-	-	-
Non-pooled Investments at Fair Value						
Government Agency Securities	N/A/AAA	less than 6 months	399,900	399,900	-	-
Government Agency Securities	Aa2/N/A	6 to 12 months	149,391	149,391	-	-
Government Agency Securities	Aa1/AA+	6 to 12 months	315,146	315,146	-	-
Government Agency Securities	Aa1/AA-	6 to 12 months	398,248	398,248	-	-
Government Agency Securities	Aa2/N/A	1-3 years	211,747	211,747	-	-
Government Agency Securities	Aa1/AA-	1-3 years	1,655,137	1,655,137	-	-
Government Agency Securities	Aaa/N/A	1-3 years	810,246	810,246	-	-
Government Agency Securities	A1/A+	1-3 years	490,455	490,455	-	-
Negotiable certificates of deposit	AAA	less than 6 months	979,838	-	979,838	-
Negotiable certificates of deposit	AAA	6 to 12 months	488,214	-	488,214	-
Negotiable certificates of deposit	AAA	1 to 3 years	2,443,941	-	2,443,941	-
Total Investments			\$ 12,006,116	\$ 4,430,270	\$ 3,911,993	\$ -

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

N/A indicates not applicable or available.

(2) Interest rate risk is disclosed using the segmented time distribution method.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 2: Detailed Notes on All Funds (Continued)

A reconciliation of cash and temporary investments as shown on the statement of net position for the Cooperative follows:

Deposits	\$ 173,979
Cash on Hand	100
Investments	<u>12,006,116</u>
Total	<u><u>\$ 12,180,195</u></u>
Cash and Temporary Investments	\$ 12,112,235
Plus Fiduciary Fund Cash and Temporary Investments	<u>67,960</u>
Total	<u><u>\$ 12,180,195</u></u>

B. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Business-type Activities				
Capital Assets not Being Depreciated				
Land	\$ 535,500	\$ -	\$ -	\$ 535,500
Capital Assets Being Depreciated				
Land improvements	497,705	-	-	497,705
Buildings	1,903,642	-	-	1,903,642
Equipment	715,203	21,199	(17,680)	718,722
Total Capital Assets Being Depreciated	<u>3,116,550</u>	<u>21,199</u>	<u>(17,680)</u>	<u>3,120,069</u>
Less Accumulated Depreciation for				
Land improvements	(118,153)	(24,886)	-	(143,039)
Buildings	(1,011,984)	(72,436)	-	(1,084,420)
Equipment	(429,328)	(94,846)	17,680	(506,494)
Total Accumulated Depreciation	<u>(1,559,465)</u>	<u>(192,168)</u>	<u>17,680</u>	<u>(1,733,953)</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 2,092,585</u>	<u>\$ (170,969)</u>	<u>\$ -</u>	<u>\$ 1,921,616</u>

Depreciation expense was charged to business-type activities as follows:

Member Services	<u>\$ 192,168</u>
-----------------	-------------------

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 2: Detailed Notes on All Funds (Continued)

C. Interfund Receivables, Payables and Transfers

During 2018, the Cooperative transferred \$968,267 from the Risk Management Pool to the Member Services fund. This transfer occurred to move cash reserves from the current year, which is attributable to health insurance operations of the Members Services fund.

D. Leases and Rents

Operating Leases

The Cooperative is under contract for thirteen operating leases at year end. They are leasing mailing equipment from Pitney Bowes for four years at a base rate of \$69 per month. This lease expires in July 2022. The Cooperative also has a lease for one copying equipment unit from A+ Imaging Systems for three years at a base rate \$488 per month. This lease expires in December 2020. The Cooperative also has a lease for eight Jeep Cherokees under a master lease agreement with Enterprise Fleet Management for five years with base rate of \$4,303 per month. The last lease expires January 2021. The future minimum lease payments for these leases are as follows:

Year Ending June 30,	Mailing Equipment	Copiers	Vehicles	Total
2019	\$ 759	\$ 5,856	\$ 45,511	\$ 52,126
2020	828	5,856	34,033	40,717
2021	828	2,928	5,523	9,279
2022	828	-	-	828
2023	69	-	-	69
Total	<u>\$ 3,312</u>	<u>\$ 14,640</u>	<u>\$ 85,067</u>	<u>\$ 103,019</u>
Lease Expense - 2018	<u>\$ 1,505</u>	<u>\$ 7,313</u>	<u>\$ 41,610</u>	<u>\$ 50,428</u>

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 2: Detailed Notes on All Funds (Continued)

E. Long-term Debt

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Business-type Activities					
Other Liabilities					
Compensated absences payable	\$ 100,019	\$ 91,878	\$ (110,633)	\$ 81,264	\$ 45,097
Pension liability					
TRA	3,410,891	41	(975,591)	2,435,341	-
PERA	1,177,328	7,474	(239,980)	944,822	-
Other postemployment benefits payable	-	64,463	-	64,463	-
Total	<u>\$ 4,688,238</u>	<u>\$ 163,856</u>	<u>\$ (1,326,204)</u>	<u>\$ 3,525,890</u>	<u>\$ 45,097</u>

F. Unrestricted - Board Designated Net Position

Board designated unrestricted net position for the year ended June 30, 2018 is as follows:

	Member Services	Risk Management Pool
Designated For Unemployment Fund	\$ 124,012	\$ -

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 3: Defined Benefit Pension Plans Statewide

Substantially all employees of the Cooperative are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

Disclosures relating to these plans follow:

A. Teachers Retirement Association (TRA)

1. Plan Description

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota statutes, chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active member, one retired member and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

2. Benefits Provided

TRA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by Minnesota statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before **July 1, 1989** receive the greater of the Tier I or Tier II as described:

Tier I:	Step Rate Formula	Percentage
Basic	1st ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

With these provisions:

1. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
2. Three percent per year early retirement reduction factors for all years under normal retirement age.
3. Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent per year for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989 receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is also eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

3. Contribution Rate

Per Minnesota statutes, chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

<u>Plan</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.00%	11.50%
Coordinated	7.50%	7.50%

The Cooperative's contributions to TRA for the years ending June 30, 2018, 2017 and 2016 were \$56,640, \$49,198 and \$55,808, respectively. The Cooperative's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in schedule of employer and non-employer pension allocations.

Employer Contributions Reported in TRA'S CAFR Statement of Changes in Fiduciary Net Position	\$367,791,000
Add Employer Contributions Not Related to Future Contribution Efforts	810,000
Deduct TRA'S Contributions Not Included in Allocation	(456,000)
Total Employer Contributions	<u>368,145,000</u>
 Total Non-Employer Contributions	 <u>35,588,000</u>
 Total Contributions Reported in Schedule of Employer and Non-Employer Pension Allocations	 <u><u>\$403,733,000</u></u>

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

4. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial information	
Valuation date	July 1, 2017
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	5.12%, from the Single Equivalent Interest Rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85 to 8.85% for ten years and 3.25 to 9.25% thereafter
Cost of living adjustment	2.00%
Mortality assumption	
Pre-retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	39.00 %	5.10 %
International Stocks	19.00	5.30
Bonds	20.00	0.75
Alternative Assets	20.00	5.90
Unallocated Cash	2.00	-
Total	100.00 %	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6.00 years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions" and "Changes in Proportion" use the amortization period of 6.00 years in the schedule presented. The amortization period for "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is 5.00 years as required by GASB 68.

Changes in actuarial assumptions since the 2016 valuation:

- The cost of living adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0% and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

5. Discount Rate

The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

6. Net Pension Liability

At June 30, 2018, the Southeast Service Cooperative (the Cooperative) reported a liability of \$2,435,341 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Cooperative's proportion of the net pension liability was based on the Cooperative's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The Cooperative proportionate share was 0.0122 percent at the end of the measurement period and 0.0143 percent for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the Cooperative as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the Cooperative were as follows:

Cooperative's Proportionate Share of Net Pension Liability	\$ 2,435,341
State's Proportionate Share of Net Pension Liability Associated With the Cooperative	235,780

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

For the year ended June 30, 2018, the Cooperative recognized pension expense of \$371,584. It also recognized \$4,522 as an increase to pension expense for the support provided by direct aid.

On June 30, 2018, the Cooperative had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 14,591	\$ 17,112
Changes in Actuarial Assumptions	1,326,722	341,153
Net Difference Between Projected and Actual Earnings on Plan Investments	-	15,904
Changes in Proportion	80,633	154,475
Contributions to TRA Subsequent to the Measurement Date	56,640	-
Total	<u>\$ 1,478,586</u>	<u>\$ 528,644</u>

Deferred outflows of resources totaling \$56,640 related to pensions resulting from the Cooperative's contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

2019	\$ 260,206
2020	298,358
2021	228,331
2022	178,043
2023	(71,636)

7. Pension Liability Sensitivity

The following presents the Cooperative's proportionate share of the net pension liability of TRA calculated using the discount rate of 5.12 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.12 percent) or one percentage point higher (6.12 percent) than the current rate.

Cooperative proportionate share of NPL		
1 Percent Decrease (4.12%)	Current (5.12%)	1 Percent Increase (6.12%)
\$ 3,214,181	\$ 2,435,341	\$ 1,778,684

The Cooperative's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

8. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling (651-296-2409 or 800-657-3669).

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

B. Public Employees Retirement Association (PERA)

1. Plan Description

The Cooperative participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (GERF)

All full-time and certain part-time employees of the Cooperative, other than teachers, are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

3. Contributions

Minnesota statutes chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in fiscal year 2018. In fiscal year 2018, the Cooperative was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.50 percent of Coordinated Plan members. The Cooperative's contributions to the GERF for the years ending June 30, 2018, 2017 and 2016 were \$70,445, \$71,530 and \$67,507, respectively. The Cooperative's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

4. Pension Costs

At June 30, 2018, the Cooperative reported a liability of \$944,822 for its proportionate share of the GERF's net pension liability. The Cooperative's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Cooperative totaled \$11,884. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Cooperative's proportion of the net pension liability was based on the Cooperative's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Cooperative's proportion was 0.0148 percent which was an increase of 0.0003 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Cooperative recognized pension expense of \$75,887 for its proportionate share of GERF's pension expense. In addition, the Cooperative recognized an additional \$888 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

At June 30, 2018, the Cooperative reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 31,602	\$ 60,871
Changes in Actuarial Assumptions	159,981	94,720
Net Difference Between Projected and Actual Earnings on Plan Investments	-	45,372
Changes in Proportion	85,666	16,230
Contributions to GERF Subsequent to the Measurement Date	70,445	-
Total	<u>\$ 347,694</u>	<u>\$ 217,193</u>

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

Deferred outflows of resources totaling \$70,445 related to pensions resulting from the Cooperative's contributions to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERS pensions will be recognized in pension expense as follows:

2019	\$	25,136
2020		88,545
2021		(13,518)
2022		(40,107)

5. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and dependents were based on RP-2014 tables for the GERS for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for the GERS through 2044 and then 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERS was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

GERS

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	39.00 %	5.10 %
International Stocks	19.00	5.30
Bonds	20.00	0.75
Alternative Assets	20.00	5.90
Cash	2.00	-
Total	<u>100.00 %</u>	

6. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERS was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

The following presents the Cooperative's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Cooperative's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

Cooperative Proportionate Share of NPL		
1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
\$ 1,465,489	\$ 944,822	\$ 518,562

8. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 4: Postemployment Benefits Other Than Pensions

A. Plan Description

The Cooperative operates a single-employer retiree benefit plan ("the Plan") that provides health, life and dental insurance to eligible employees and their families through the Cooperative's health insurance plan. The full cost of the benefits is covered by the plan. Benefit and eligibility provisions are established through negotiations between the Cooperative and unions representing Cooperative employees and are renegotiated each bargaining period. The Plan does not issue a publicly available report.

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	1
Active plan members	22
	<hr/>
Total plan members	23
	<hr/> <hr/>

B. Funding Policy

Contribution requirements are also negotiated between the Cooperative and union representatives. The Cooperative contributes a predetermined portion of the cost of current-year premiums for eligible retired plan members and their spouses based on the employment contract in effect at the time of retirement. For fiscal year 2018, the Cooperative contributed \$0 to the Plan.

C. Actuarial Methods and Assumptions

The Cooperative's total OPEB liability of \$64,463 was measured as of July 1, 2017, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of July 1, 2017.

The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.40%
20-year Municipal Bond Yield	3.40%
Inflation Rate	2.50%
Salary Increases	3.00%
Medical Trend Rate	6.50% as of July 1, 2017 grading to 5.00% over 6 year

The discount rate used to measure the total OPEB liability was 3.40 percent. Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-Year Municipal Bond Yield.

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2017 valuation were based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information as well as for consistency with the other economic assumptions.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 4: Postemployment Benefits Other Than Pensions (Continued)

D. Changes in the Total OPEB Liability

	Total OPEB Liability (a)
Balances at June 30, 2017	\$ 51,651
Changes for the Year:	
Service cost	10,692
Interest	2,120
Net Changes	12,812
Balances at June 30, 2018	\$ 64,463

E. Sensitivity of the Total OPEB Liability

The following presents the total OPEB liability of the Cooperative, as well as what the Cooperative's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.40 percent) or 1-percentage-point higher (4.40 percent) than the current discount rate:

1 Percent Decrease (2.40%)	Current (3.40%)	1 Percent Increase (4.40%)
\$ 68,631	\$ 64,463	\$ 60,505

The following presents the total OPEB liability of the Cooperative, as well as what the Cooperative's total OPEB liability would be if it were calculated using a Healthcare Cost Trend Rates that is 1-percentage point lower (5.50 percent decreasing to 4.00 percent) or 1-percentage-point higher (7.50 percent decreasing to 6.00 percent) than the current discount rate:

1 Percent Decrease (5.50% decreasing to 4.00%)	Healthcare Cost Trend Rates (6.50% decreasing to 5.00%)	1 Percent Increase (7.50% decreasing to 6.00%)
\$ 57,871	\$ 64,463	\$ 72,341

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 4: Postemployment Benefits Other Than Pensions (Continued)

F. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Cooperative recognized OPEB expense of \$44. At June 30, 2018, the Cooperative reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions to OPEB Subsequent to the Measurement Date	\$ 12,768	\$ -

Deferred outflows of resources totaling \$12,768 related to OPEB resulting from the Cooperatives contributions to the plan subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019.

Note 5: Commitment

The Cooperative continues to bear a 10 percent risk liability for member's claims in the insurance pools. The Cooperative must use insurance reserves to pay for any negative settlements. The Cooperative's insurance reserve is now \$11,878,098 which exceeds the 10 percent claims loss. The maximum loss based on this year's claims would be \$5,185,305 (\$51,853,053 X 10 percent).

Note 6: Joint Powers Agreement

Minnesota Services Cooperative (MSC - hereafter referred to as "the Agency") was established under a joint and cooperative agreement between Southeast Service Cooperative, Northwest Service Cooperative, Lakes Country Service Cooperative, Southwest/West Central Service Cooperative, Resource, Training and Solutions, Northeast Service Cooperative, South Central Service Cooperative and Metropolitan Educational Cooperative Service Unit (Metro ECSU) and National Joint Powers Alliance (NJPA). The general purpose of the Agency is to analyze and identify service opportunities and needs for the participating members as well as facilitate the creation and delivery of the determined programs.

The Agency's fiscal year runs from July 1 to June 30. The governing body of the Agency is made up of individuals from the member cooperatives. An annual budget is presented to and approved by the Board of Directors. Funds may be expended by the Board of Directors or the Executive Council in accordance with established laws and based on budget amounts.

In the event of dissolution of the Agency, assets and liabilities shall be divided among all members. An investment in joint venture is not recorded for MSC because there is no known or explicit method for dividing up the assets and liabilities of MSC in the event of dissolution. We cannot reasonably estimate the Cooperative's portion of MSC.

In August 2017, the Cooperative agreed, along with six other cooperatives throughout the state of Minnesota, to establish a new joint powers entity. The purpose of this agreement is to permit the parties to establish a statewide joint powers entity with enumerated decision-making powers over regional health insurance pools, to purchase and hold a statewide stop-loss insurance policy at higher attachment points for lower fees, to permit limited commingling of Program Funds in a statewide reserve to permit stop loss insurance pooling at lower attachment points for members in regional health insurance pools, and to enter into statewide contracts with third party administrators, employees, consultants, actuaries, attorneys, lobbyists and other vendors. The board shall be comprised of two board members from each party to the agreement. One board member from each party shall be a current sitting member of that party's board of directors, and shall be appointed by the party's board of directors. The second board member shall be the then current Executive Director of that party and shall service in an ex-officio non-voting capacity.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Notes to the Financial Statements
June 30, 2018

Note 7: Other Information

Risk Management

The Cooperative is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Cooperative carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNR). The Cooperative's management is not aware of any incurred but not reported claims.

Note 8: Change in Accounting Principle

During fiscal year 2018, the Cooperative implemented a new accounting pronouncement issued by the Government Accounting Standards Board (GASB), Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. These standards required a retroactive implementation which resulted in the restatement of beginning balances in the June 30, 2017 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 1.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported June 30, 2017 balances to the June 30, 2017 financial statements:

Fund	June 30, 2018		
	Net Position July 1, 2017 as Previously Reported	Prior Period Restatement (1)	Net Position July 1, 2017 as Restated
Member Services	\$ 1,938,420	\$ (49,776)	\$ 1,888,644
Risk Management Pool	\$ 12,812,498	\$ (1,875)	\$ 12,810,623

(1) To record beginning other postemployment benefits payable and deferred outflows of resources at June 30, 2017.

REQUIRED SUPPLEMENTARY
INFORMATION

SOUTHEAST SERVICE COOPERATIVE
INDEPENDENT SCHOOL DISTRICT NO. 921
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2018

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Required Supplementary Information
For the Year Ended June 30, 2018

Schedule of Employer's Share of TRA Net Pension Liability

Fiscal Year Ending	Cooperative's Proportion of the Net Pension Liability	Cooperative's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability with the Cooperative (b)	Total (a+b)	Cooperative's Covered Payroll (c)	Cooperative's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/17	0.0122 %	\$ 2,435,341	\$ 235,780	\$2,671,121	\$ 655,973	371.3 %	51.6 %
06/30/16	0.0143	3,410,891	341,595	3,752,486	744,107	458.4	44.9
06/30/15	0.0144	890,782	109,491	1,000,273	756,173	117.8	76.8
06/30/14	0.0124	571,383	40,280	611,663	568,129	100.6	81.1

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's TRA Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Cooperative's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
06/30/18	\$ 56,640	\$ 56,640	\$ -	\$ 755,200	7.5 %
06/30/17	49,198	49,198	-	655,973	7.5
06/30/16	55,808	55,808	-	744,107	7.5
06/30/15	56,713	56,713	-	756,173	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Notes to the Required Supplementary Information - TRA

Changes in Actuarial Assumptions

2017 - There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions.

2016 - The assumed investment return was changed from 8.0 percent to 4.66 percent using the Single Equivalent Interest Rate calculation. The single discount rate was changed from 8.0 percent to 4.66 percent. The assumed future salary increases, payroll growth and inflation were changed by a 0.25 percent decrease for price inflation, a 0.50 percent increase for wage inflation and a 2.50 percent decrease in maximum salary increases based on years of service. Mortality assumptions were updated using the RP-2014 tables.

2015 - The assumed post-retirement benefit increase rate was changed from 2.0 percent per year through 2034 and 2.5 percent per year thereafter to 2.0 percent per year for all future years. The assumed investment return was changed from 8.25 percent to 8.0 percent. The single discount rate was changed from 8.25 percent to 8.0 percent.

Changes in Plan Provisions

2015 - On June 30, 2015, the Duluth Teachers Retirement Fund Association was merged into TRA.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018

Schedule of Employer's Share of PERA Net Pension Liability

Fiscal Year Ending	Cooperative's Proportion of the Net Pension Liability	Cooperative's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the Cooperative (b)	Total (a+b)	Cooperative's Covered Payroll (c)	Cooperative's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/17	0.0148 %	\$ 944,822	\$ 11,884	\$ 956,706	\$ 953,739	99.1 %	75.9 %
06/30/16	0.0145	1,177,328	15,387	1,192,715	900,093	130.8	68.9
06/30/15	0.0119	616,720	-	616,720	685,653	89.9	78.2
06/30/14	0.0131	615,372	-	615,372	686,841	89.6	78.7

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Cooperative's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
06/30/18	\$ 70,445	\$ 70,445	\$ -	\$ 939,261	7.5 %
06/30/17	71,530	71,530	-	953,739	7.5
06/30/16	67,507	67,507	-	900,093	7.5
06/30/15	51,424	51,424	-	685,653	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Notes to the Required Supplementary Information - PERA

Changes in Actuarial Assumptions

2017 - Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65 percent to 60 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.6 percent to 7.5 percent.

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018

Notes to the Required Supplementary Information – PERA (Continued)

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Schedule of Changes in the Cooperative's Net OPEB Liability and Related Ratios

Total OPEB Liability	
Service Cost	\$ 10,692
Interest	2,120
Net Change in total OPEB Liability	<u>12,812</u>
 Total OPEB liability - beginning	 <u>51,651</u>
 Total OPEB liability - ending	 <u><u>\$ 64,463</u></u>
 Covered - employee payroll	 \$ 1,650,390
 Cooperative's net OPEB liability (asset) as a percentage of covered employee payroll	 4%

Benefit Changes:

In 2017, the following benefit changes occurred:

None

Changes in Assumptions:

In 2017, the following assumptions changes:

The health care trend rates were changed to better anticipate short term and long term medical increases.

The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with the MP-2016 Generational Improvement Scale.

The discount rate was changed from 3.5% to 3.4%.

Changes in Method:

In 2017, the actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

COMBINING AND INDIVIDUAL FUND
SCHEDULES AND TABLE

SOUTHEAST SERVICE COOPERATIVE
INDEPENDENT SCHOOL DISTRICT NO. 921
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2018

THIS PAGE IS LEFT
BLANK INTENTIONALLY

Southeast Service Cooperative
 Independent School District No. 921
 Rochester, Minnesota
 Combining Schedule of Revenues, Expenses and Changes in Net Position
 Member Services Cost Centers (Continued on the Following Pages)
 For the Year Ended June 30, 2018

	01-105 General Administrative	01-106/107 Innovation	01-109 Wood Lake Meeting Center	01-210 Benefit Services
Operating Revenues				
Fees from patrons	\$ 109,046	\$ -	\$ 114,901	\$ -
Grants				
State	-	-	-	-
Federal	-	-	-	-
Sales and other conversion of assets	-	-	-	-
Administrative fees	-	-	-	42,284
Other miscellaneous revenue	5,474	-	-	-
Total Operating Revenues	<u>114,520</u>	<u>-</u>	<u>114,901</u>	<u>42,284</u>
Operating Expenses				
Salaries	425,701	74,907	78,523	463
Employee benefits	156,742	23,724	39,607	161
Contracted services	172,658	2,655	1,843	17,359
Supplies	3,203	-	1,914	-
Equipment	57,614	-	2,056	-
Communication	7,509	1,203	1,254	43
Occupancy	34,444	3,195	44,812	7
Travel	72,836	11,345	-	391
Printing	3,709	258	321	24
Other	13,764	-	-	-
Administration	(853,296)	(113,282)	2,118	243
Depreciation	-	-	-	-
Total Operating Expenses	<u>94,884</u>	<u>4,005</u>	<u>172,448</u>	<u>18,691</u>
Operating Income (Loss)	<u>19,636</u>	<u>(4,005)</u>	<u>(57,547)</u>	<u>23,593</u>
Nonoperating Revenues (Expenses)				
Interest income	1,486	-	-	-
Gain on disposal of capital assets	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>1,486</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Transfers	21,122	(4,005)	(57,547)	23,593
Transfers In	<u>968,267</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 989,389</u>	<u>\$ (4,005)</u>	<u>\$ (57,547)</u>	<u>\$ 23,593</u>

01-217 Regional Center of Excellence	01-219 Regional Center Center of Excellence-State	01-501 SHIP Grant	01-579 Mobile Science Lab	01-600 Health & Safety Management	01-609 Coop Purchasing	01-612 Rochester Area Math Science Partnership
\$ -	\$ -	\$ -	\$ 3,850	\$ 70,905	\$ 1,600	\$ 37,037
-	108,168	11,013	-	-	-	-
1,178,185	-	-	-	-	-	-
-	-	-	-	-	98,747	-
-	-	-	-	-	-	-
-	-	-	-	-	-	9,318
<u>1,178,185</u>	<u>108,168</u>	<u>11,013</u>	<u>3,850</u>	<u>70,905</u>	<u>100,347</u>	<u>46,355</u>
733,245	61,348	6,374	3,736	22,483	30,352	37,466
236,937	16,113	3,408	1,487	7,379	11,108	14,248
-	-	-	-	52,713	28,285	10,094
4,807	60	-	609	18	-	71
12,648	-	-	101	-	-	-
9,467	1,684	1,083	382	3,037	864	1,584
11,990	-	-	12,043	32,102	2,182	3,661
82,007	18,994	925	204	5,456	5,278	7,218
913	28	7	-	407	468	363
-	-	-	-	-	-	-
86,171	9,941	146	251	1,706	1,135	981
-	-	-	-	-	-	-
<u>1,178,185</u>	<u>108,168</u>	<u>11,943</u>	<u>18,813</u>	<u>125,301</u>	<u>79,672</u>	<u>75,686</u>
-	-	(930)	(14,963)	(54,396)	20,675	(29,331)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	(930)	(14,963)	(54,396)	20,675	(29,331)
-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (930)</u>	<u>\$ (14,963)</u>	<u>\$ (54,396)</u>	<u>\$ 20,675</u>	<u>\$ (29,331)</u>

Southeast Service Cooperative
 Independent School District No. 921
 Rochester, Minnesota
 Combining Schedule of Revenues, Expenses and Changes in Net Position
 Member Services Cost Centers (Continued)
 For the Year Ended June 30, 2018

	01-614 Professional Development	01-615 Student Academics	Adjustment to Accrual	Total
Operating Revenues				
Fees from patrons	\$ 172,279	\$ 142,139	\$ -	\$ 651,757
Grants				
State	-	6,000	-	125,181
Federal	-	-	-	1,178,185
Sales and other conversion of assets	-	-	-	98,747
Administrative fees	-	-	-	42,284
Other miscellaneous revenue	-	-	(609)	14,183
Total Operating Revenues	<u>172,279</u>	<u>148,139</u>	<u>(609)</u>	<u>2,110,337</u>
Operating Expenses				
Salaries	104,080	48,324	-	1,627,002
Employee benefits	51,220	27,792	447,449	1,037,375
Contracted services	71,886	25,730	-	383,223
Supplies	383	3,431	-	14,496
Equipment	-	-	(21,199)	51,220
Communication	3,260	5,034	-	36,404
Occupancy	9,593	36,996	-	191,025
Travel	13,042	7,517	-	225,213
Printing	1,380	1,367	-	9,245
Other	-	-	-	13,764
Administration	3,316	2,228	-	(858,342)
Depreciation	-	-	186,821	186,821
Total Operating Expenses	<u>258,160</u>	<u>158,419</u>	<u>613,071</u>	<u>2,917,446</u>
Operating Income (Loss)	<u>(85,881)</u>	<u>(10,280)</u>	<u>(613,680)</u>	<u>(807,109)</u>
Nonoperating Revenues (Expenses)				
Interest income	-	-	-	1,486
Gain on disposal of capital assets	-	-	2,087	2,087
Total Nonoperating Revenues	<u>-</u>	<u>-</u>	<u>2,087</u>	<u>3,573</u>
(Expenses)				
Income (Loss) Before Transfers	(85,881)	(10,280)	(611,593)	(803,536)
Transfers In	-	-	-	968,267
Increase (Decrease) in Net Position	<u>\$ (85,881)</u>	<u>\$ (10,280)</u>	<u>\$ (611,593)</u>	<u>\$ 164,731</u>

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Combining Schedule of Revenues, Expenses and Changes in Net Position
Risk Management Cost Centers
For the Year Ended June 30, 2018

	09-200 Health Insurance - School Pool	09-220 Health Insurance - Government Pool	09-201 Health Insurance - Operating	Total
Operating Revenues				
Insurance premiums	\$ 26,372,951	\$ 37,315,298	\$ -	\$ 63,688,249
Administrative fees	-	-	2,127,044	2,127,044
Insurance adjustment	(1,052,603)	1,052,603	-	-
Total Operating Revenues	<u>25,320,348</u>	<u>38,367,901</u>	<u>2,127,044</u>	<u>65,815,293</u>
Operating Expenses				
Salaries	-	-	59,362	59,362
Employee benefits	-	-	24,307	24,307
Contracted services	-	-	308,942	308,942
Supplies	-	-	63	63
Communication	-	-	1,055	1,055
Occupancy	-	-	6,935	6,935
Travel	-	-	14,549	14,549
Printing	-	-	1,325	1,325
Administration	-	-	851,891	851,891
Wellness activities	19,775	211,004	-	230,779
Insurance premiums and administrative fees	6,738,831	5,093,832	-	11,832,663
Insurance claims	19,631,587	32,221,466	-	51,853,053
Insurance settlements	(922,394)	1,450,634	-	528,240
Network access fees	-	198,889	-	198,889
Total Operating Expenses	<u>25,467,799</u>	<u>39,175,825</u>	<u>1,268,429</u>	<u>65,912,053</u>
Operating Income (Loss)	(147,451)	(807,924)	858,615	(96,760)
Nonoperating Revenues				
Interest income	<u>16,271</u>	<u>6,579</u>	<u>109,652</u>	<u>132,502</u>
Income (Loss) Before Transfers	(131,180)	(801,345)	968,267	35,742
Transfers Out	<u>-</u>	<u>-</u>	<u>(968,267)</u>	<u>(968,267)</u>
Change in Net Position	<u>\$ (131,180)</u>	<u>\$ (801,345)</u>	<u>\$ -</u>	<u>\$ (932,525)</u>

Southeast Service Cooperative
 Independent School District No. 921
 Rochester, Minnesota
 Statement of Changes in Assets and Liabilities
 Fiduciary Fund
 For the Year Ended June 30, 2018

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Assets				
Cash and temporary investments	\$ 7,853	\$ 556,577	\$ 496,470	\$ 67,960
Accounts receivable	-	493,420	490,280	3,140
Due from other districts	64,357	-	64,357	-
	<u>64,357</u>	<u>-</u>	<u>64,357</u>	<u>-</u>
 Total Assets	 <u>\$ 72,210</u>	 <u>\$ 1,049,997</u>	 <u>\$ 1,051,107</u>	 <u>\$ 71,100</u>
Liabilities				
Accounts payable	\$ 22	\$ 497,197	\$ 497,183	\$ 36
Due to other districts	72,188	552,800	553,924	71,064
	<u>72,188</u>	<u>552,800</u>	<u>553,924</u>	<u>71,064</u>
 Total Liabilities	 <u>\$ 72,210</u>	 <u>\$ 1,049,997</u>	 <u>\$ 1,051,107</u>	 <u>\$ 71,100</u>



Fiscal Compliance

Fiscal Compliance Report - 6/30/2018 District: REGION 10 - SOUTHEAST EC (921-83)

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total Revenue	\$2,112,432	<u>\$2,112,427</u>	<u>\$5</u>
Total Expenditures	\$2,469,997	<u>\$2,469,992</u>	<u>\$5</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$0	<u>\$0</u>	<u>\$0</u>
4.06 Health and Safety	\$0	<u>\$0</u>	<u>\$0</u>
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>
4.24 Operating Capital	\$0	<u>\$0</u>	<u>\$0</u>
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
4.41 Basic Skills Programs	\$0	<u>\$0</u>	<u>\$0</u>
4.45 Career Tech Programs	\$0	<u>\$0</u>	<u>\$0</u>
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>
4.49 Safe School Crime - Crime Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	<u>\$0</u>
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.72 Medical Assistance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	<u>\$0</u>
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	<u>\$0</u>
<i>Committed:</i>			
4.18 Committed for Separation	\$0	<u>\$0</u>	<u>\$0</u>
4.61 Committed Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Assigned:</i>			
4.62 Assigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.22 Unassigned Fund Balance	\$4,351,356	<u>\$4,351,356</u>	<u>\$0</u>

06 BUILDING CONSTRUCTION

	Audit	UFARS	Audit - UFARS
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

07 DEBT SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	<u>\$0</u>
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

08 TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	\$495,360	<u>\$495,360</u>	<u>\$0</u>
Total Expenditures	\$496,484	<u>\$496,484</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$71,064	<u>\$71,065</u>	<u>(\$1)</u>

20 INTERNAL SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	\$67,260,769	<u>\$67,260,768</u>	<u>\$1</u>
Total Expenditures	\$67,224,730	<u>\$67,224,729</u>	<u>\$1</u>
4.22 Unassigned Fund Balance (Net Assets)	\$11,931,532	<u>\$11,931,530</u>	<u>\$2</u>

25 OPEB REVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

45 OPEB IRREVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>

02 FOOD SERVICES

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

04 COMMUNITY SERVICE

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.31 Community Education	\$0	<u>\$0</u>	<u>\$0</u>
4.32 E.C.F.E	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
4.44 School Readiness	\$0	<u>\$0</u>	<u>\$0</u>
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

47 OPEB DEBT SERVICE

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

THIS PAGE IS LEFT
BLANK INTENTIONALLY

SINGLE AUDIT AND OTHER
REQUIRED REPORTS

SOUTHEAST SERVICE COOPERATIVE
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2018

THIS PAGE IS LEFT
BLANK INTENTIONALLY



INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

Board of Directors
Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major enterprise fund of the Southeast Service Cooperative, Rochester, Minnesota, (the Cooperative) as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2018.

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minnesota Statute § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our study considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
December 18, 2018

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major enterprise fund of the Southeast Service Cooperative, Rochester, Minnesota, (the Cooperative), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated December 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

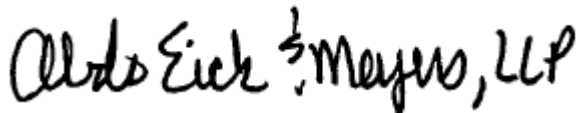
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
December 18, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE

Board of Directors
Southeast Service Cooperative
Rochester, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Southeast Service Cooperative, Rochester, Minnesota's (the Cooperative) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2018. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Cooperative's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Cooperative's compliance.

Opinion on Each Major Federal Program

In our opinion, the Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

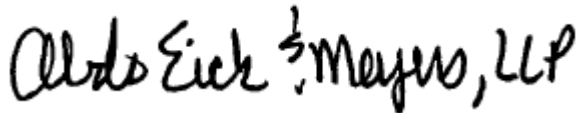
Report on Internal Control Over Compliance

Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cooperative's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
December 18, 2018

Southeast Service Cooperative
Independent School District No. 921
Rochester, Minnesota
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

<u>Federal Awarding Agency</u>	<u>Pass - through Entity</u>	<u>Program Name</u>	<u>Federal Domestic Assistance Number</u>		<u>Amount Expended</u>
U.S. Department of Education	Minnesota Department of Education	Title 1 Grants to Local Educational Agencies (Part A)	84.010	Expended directly	<u>\$ 1,178,185</u>

Southeast Service Cooperative
Rochester, Minnesota
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Southeast Service Cooperative, Rochester, Minnesota (the Cooperative). The Cooperative's reporting entity is defined in Note 1A to the Cooperative's financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). All federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the schedule.

Note 2: Summary of Significant Accounting Policies for Expenditures

Expenditures reported on this schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, Cost Principles for Non-Profit-Organizations, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Pass-through Entity Identifying Numbers

Pass-through entity identifying numbers, if any, are presented where available.

Note 4: Subrecipients

No federal expenditures presented in this schedule were provided to subrecipients.

Note 5: Indirect Cost Rate

During the year ended June 30, 2018, the Cooperative did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Southeast Service Cooperative
Rochester, Minnesota
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR section 200.516(a)?	No

Identification of Major Programs/Projects

	<u>CFDA No.</u>
Title I Grants to Local Education Agencies (Part A)	84.010
Dollar threshold used to distinguish between Type A and Type B Programs	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None

Section III - Major Federal Award Findings and Questioned Costs

There are no significant deficiencies, material weaknesses, or instances of noncompliance including questioned costs that are required to be reported in accordance with Uniform Guidance.

Other Issues

A Corrective Action Plan is not required because there were no findings required to be reported under the Federal Single Audit Act.